

Niechoj, Torsten

Book Review

Book Review: Mitchell, William (2015): Eurozone Dystopia: Groupthink and Denial on a Grand Scale, Cheltenham, UK and Northampton, MA, USA (512 pages, Edward Elgar, hardcover, ISBN 978-1-78471-665-3, £99; softcover, ISBN 978-1-78471-667-7, £32)

European Journal of Economics and Economic Policies: Intervention (EJEEP)

Provided in Cooperation with:

Edward Elgar Publishing

Suggested Citation: Niechoj, Torsten (2017) : Book Review: Mitchell, William (2015): Eurozone Dystopia: Groupthink and Denial on a Grand Scale, Cheltenham, UK and Northampton, MA, USA (512 pages, Edward Elgar, hardcover, ISBN 978-1-78471-665-3, £99; softcover, ISBN 978-1-78471-667-7, £32), European Journal of Economics and Economic Policies: Intervention (EJEEP), ISSN 2052-7772, Edward Elgar Publishing, Cheltenham, Vol. 14, Iss. 1, pp. 121-124, <https://doi.org/10.4337/ejeep.2017.01.09>

This Version is available at:

<https://hdl.handle.net/10419/277383>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/>

Book review

Mitchell, William (2015): *Eurozone Dystopia: Groupthink and Denial on a Grand Scale*, Cheltenham, UK and Northampton, MA, USA (512 pages, Edward Elgar, hardcover, ISBN 978-1-78471-665-3, £99; softcover, ISBN 978-1-78471-667-7, £32)

Torsten Niechoj
Rhine-Waal University of Applied Sciences, Kamp-Lintfort, Germany

Mitchell's book offers an alternative narrative of the crisis in Europe after 2007. It is an alternative to the mainstream interpretation of the crisis as one of irresponsible public spending that had to be countered by austerity. As the title suggests, the book argues that the responses to the crisis were not only insufficient but misleading and thus resulted in a dystopic present characterised by sluggish demand and high unemployment. The main cause of false analysis and erroneous remedy is – according to Mitchell's core analytical argument – groupthink, that is, the counter-factual reassurance of politicians and neoliberal economists that the dominant economic models have analytical power despite the empirical evidence of the crisis.

As the preface emphasises, *Eurozone Dystopia* addresses a layperson who already knows something about economics and mainstream approaches and is interested in an alternative interpretation of the euro crisis because she somehow feels that the mainstream interpretation is inconsistent without exactly knowing why. For a strictly academic audience, the book lacks references, differentiation in assessment and methodological sophistication.

It consists of three parts. Part I provides a historic–analytical reconstruction of the evolution of the European Union (EU) until the establishment of the European Monetary Union (EMU). The ingredients of this part are well-known because Mitchell bases his depiction solely on secondary literature. He neither offers a new interpretation nor new material to animate the debate. Although this part covers almost 200 pages it is no in-depth analysis of documents and interest constellations. Authors such as Dyson/Featherstone (1999) have more to offer but surely do not address the layperson. For this audience, however, the length of this section seems slightly excessive, at least if one compares it to the next part.

Part II deals with the euro area after the introduction of the euro, the evolution of the euro crisis and the policy responses to it. All the information can be found in more detail in numerous papers and reports published in recent years. But Mitchell provides an overview of all the events and gives an *ex post* assessment which reminds the reader of sequences and crucial junctions of the crisis and relates the events to each other. This is a very helpful part. It would have gained further if Mitchell had included more information about the austerity measures taken in the different countries, explicitly showing their damaging effects on economies and people.

In part II Mitchell makes use of the psychological concept of groupthink (mainly in chapter 16). Groupthink describes a process of group dynamics that reduces critical thinking, although intellectual capacities are available. Finally it leads to conformity of opinion and commitment to a once-determined goal despite obviously having negative consequences (Janis 1971). By adopting this idea, Mitchell identifies a broad consensus of

politicians and economists in the way the euro crisis has been interpreted and addressed. The specific contribution of the concept of groupthink is that it stresses the joint approval and reassurance among European politicians which frames the analysis of the situation and which then leads to certain preferred policy options. It is the interpretation of the crisis as a problem of irresponsible public finance and a lack of competitiveness of some countries which then calls for austerity measures to reduce debt and improve competitiveness. This interpretation was offered by a neoliberally oriented academia and, according to Mitchell, has been widely accepted and internalised by European politicians and administrations. It implies that fiscal restraint has no or only temporary negative effects on GDP growth and that countries are individually responsible for 'their' crisis and debt.

I found this concept very attractive and helpful to analyse the crisis. However, some caveats remain. First of all, Mitchell does not make use of the full potential of this tool. The key mechanics of groupthink – how does self-censorship and the rationalising away of problems work? – are neither depicted nor really applied to recent history. Therefore, both the meaning and applicability of groupthink remain blurred. When Mitchell refers to misleading assessments on fiscal multipliers and the inadequate forecasting models of the International Monetary Fund (IMF), for example, he blames incompetence rather than groupthink (p. 259). Why? Moreover, was there really (the illusion of) unanimity among members of the euro area on the causes and the remedies for the crisis as the concept of groupthink suggests? The Greek government, but also the Italian or the French government, might tell a story on the adequateness of fiscal restraint that differs from, let's say, the German perspective. Or, to give another example, the German authorities, mainly Mr Schäuble, the Minister of Finance, and Germany's representatives in the European Central Bank (ECB), have strongly insisted that monetary financing of states cannot be allowed to happen. However – and Mitchell himself demonstrates this (pp. 279–284) – with the help of the Securities Market Programme and Quantitative Easing, the ECB (supported by many member states) somehow circumvented legal obstacles, avoided insolvency of states and thus relaxed the situation in Europe. This demonstrates that there is no unique groupthink shared by all member states and supranational actors of the euro area. Power relations are important, too. Mitchell often refers to arguments based on power but fails to provide a combined approach that consistently weighs and identifies the roles of power and groupthink. One might argue that for Mitchell groupthink is always inherently linked to a powerful player that forces his will on others and then declares this as consensus. Some remarks on Germany support this interpretation. But this would no longer be consistent with the original concept of groupthink because it removes all psychological group dynamics from the concept. Finally, it is puzzling that Mitchell points to the role of groupthink in the advent of the euro crisis but does not discuss whether groupthink also impacted on the evolution of the EU and the euro area.

Part III starts with a concise depiction of a post-Keynesian approach – to be more specific, the Modern Monetary Theory (MMT) of which Mitchell is a leading proponent. MMT lays the ground for the subsequent arguments and policy options alternative to austerity and the current monetary design of the euro area. Mitchell sees the main flaw of the euro area in the fact that the treasury is not controlling the central bank and thus cannot easily and directly instruct the ECB to create money to allow for more government spending. He then argues that monetary financing of government budgets is feasible and desirable and thus should replace the flawed institutional setting in the euro area. In a situation of unused capacities it increases aggregate demand without causing inflation. Basically, this is an old Keynesian argument but MMT pushes it to an extreme. Mitchell rhetorically asks 'why central bankers would keep pumping out liquidity for the government to spend once the economy was beyond full employment and was no longer able to increase

output?’ (p. 358, cf. also pp. 383–384). In other words, and this is a bold statement, according to Mitchell it is (a) always possible to achieve full employment before inflation occurs and (b) the actor in charge of spending – in the MMT view a combination of treasury and central bank – knows when to stop and is willing to stop.

He does not bother to describe the current euro design in terms of the MMT approach but directly offers the theoretical model, in which treasury and central bank closely cooperate, as a political blueprint for reform. For him, ‘EMU is itself a system of voluntary constraints that are reflected in legal statements, all of which could be changed via appropriate legislation. There is nothing irrevocable about the euro’ (p. 294). As true as this is, it also holds that these voluntary constraints are very hard to change if most of the relevant actors share a mindset that supports the current legislation, as part II of Mitchell’s book demonstrated.¹

His solution to this problem is the demystification of the neoliberal ‘Newspeak’ and its replacement by a more realistic, progressive ontology and language. In chapter 18, he discusses several common propositions such as ‘fiscal deficits are bad’ or ‘government spending leads inevitably to inflation’, to demonstrate both the theoretical shortcomings and practical consequences of the neoliberal narratives and metaphors. He sketches a pragmatic handout for a progressive narrative that appeals to the public and thus would allow MMT to gain dominance. This quasi-linguistic enterprise emphasises that progressive measures are often negatively connoted. However, this can be avoided or balanced by a change in language. An example of this is to stress that public deficits are always linked to an increase in wealth, in order to revalue and upgrade deficit spending (pp. 324–327).

Maybe as an alternative to such a probably slow process of change – Mitchell is not very explicit here – he recommends countries suffering from the current euro design to leave the euro area. In chapter 22, he details the conditions for a successful exit as follows: capital controls need to be in place to avoid capital flight; functional finance guarantees an immediate upswing without inflation; imported inflation due to devaluation is only a temporary problem; exports will surge although countries like Greece have only a limited amount of goods and services which are very exchange-rate-sensitive; the ECB writes off losses and refunds the new central bank of the leaving member state with their initial contributions of foreign-reserve assets; private debt is redenominated in the new currency; and leaving the euro area but remaining in the EU should be made possible. Given all this, an exit would surely be preferable to a situation in which a country stays in the euro area under heavy austerity measures. However, it seems quite unlikely that all or even most of these conditions would be met in the case of an exit.

The last chapter of the book does not summarise the main arguments but highlights the merits of the ‘employer of last resort’ idea instead, which is a policy option strongly recommended by MMT proponents. It aims at the creation of a secondary labour market and offers an employment guarantee at minimum wage for all who are not able to find employment in the primary labour market. It is complementary to the previous policy recommendations because it establishes another automatic stabiliser without creating inflationary pressure. Mitchell argues that only labour which otherwise would not be employed is recruited and this would then have no impact on regular wages (and prices). It is explicitly meant as a counter-concept to the activating approaches of New Labour and the German Hartz reforms.

1. Therefore, most of the progressive policy proposals start from the existing institutional setting and then suggest the implanting of seemingly minor changes that would finally transform the institutional setting and lead to large and positive effects (cf. for example the recent contributions by Bibow 2016, Truger 2016 and Watt 2016 in this journal).

Summing up, my main point of criticism is rather formal. To me the three parts do not balance out. Part I could be shortened without endangering the main message of the text. Furthermore, the structure of the text is sometimes overly complicated, at least for the layperson to whom the text is addressed. For example (pp. 272–279), Mitchell starts with a discussion of internal devaluation and export-led growth strategies in Europe after 2007, then discusses the fallacy of composition and its different applications, finally linking both by dealing with the structural adjustment programmes of the IMF in the 1970s and their impact on world poverty. To be sure, all this is related, but I suppose some readers would have difficulty seeing the connections. This example stands for the author's general tendency to mix the main line of reasoning with explanations, excursions, examples from outside the euro area and critical discussions of mainstream concepts. Maybe it would have helped readers to work out the common thread if the theoretical foundation had been placed at the beginning or if explanations and excursions had been outplaced to boxes or appendices. Finally, some bold statements like 'Greece was now more or less a German colony' (p. 265) require more substantiation than is provided.

In regard to content, the book offers numerous relevant insights and arguments. The author shares a lot with other (post-)Keynesians when he, for example, points to unemployment as a result of macroeconomic mismanagement, when he stresses the importance of fiscal policy or when he describes money as endogenously created. The book convincingly depicts the disaster of austerity and the deficiencies of export-led growth models. It demonstrates that the euro area is still vulnerable and that the dominant view has no consistent analysis to offer. As usual, there is also leeway for disagreement.

REFERENCES

- Bibow, J. (2016): Making the euro viable: the Euro Treasury Plan, in: *European Journal of Economics and Economic Policies: Intervention*, 13(1), 72–86.
- Dyson, K., Featherstone, K. (1999): *The Road to Maastricht: Negotiating Economic and Monetary Union*, Oxford: Oxford University Press.
- Janis, I.L. (1971): Groupthink, in: *Psychology Today*, 5(6), 43–46 and 74–76.
- Truger, A. (2016): Reviving fiscal policy in Europe: towards an implementation of the golden rule of public investment, in: *European Journal of Economics and Economic Policies: Intervention*, 13(1), 57–71.
- Watt, A. (2016): Monetary financing of public investment: a viable way forward for the euro area?, in: *European Journal of Economics and Economic Policies: Intervention*, 13(2), 241–254.